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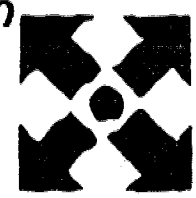
ABSTRACT

Ten case studies taken from the business world are presented to help secondary school students develop a realistic understanding of economic problems. Discussion of the cases can be integrated into economics or social studies programs. By studying concrete examples of business reacting to changing economic conditions, students should learn to understand microeconomic relationships such as business organization, competitive mechanisms, and economic motivation. All but one of the studies describe real situations which have developed during the 1960s and 1970s in the Northeast. All historical and current facts are provided, and students must analyze the data and make business decisions. For example, the development of a national restaurant chain is explained in terms of demographic studies, reasons for past successes and failures, and financial requirements of opening new sites. Three possible new sites are described. Students must consider factors such as location, rent, building redesign, and availability of liquor licenses in selecting the most appropriate site. Other cases involve the future of the shoe industry, viability of an investment company, and relocation of a rubber and golf products company. (AV)

A BUSINESS CASEBOOK FOR YOUNG DECISION-MAKERS



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We wish to thank the members of FEI, not only for their financial support of this important venture in business education, but for their personal commitment to a more positive relationship between business and the society it serves.

In particular, the members of the FEI Committee on Government and Business Relations arranged for the ten companies used as case subjects by the teachers. Without this relationship, these materials, which are meant for classroom use, would not have been developed. Thanks also to the specific companies for their openness and concern for the success of this project.

Except for one case, all names and situations are real. However, these cases should be regarded as illustrations for classroom discussions rather than as solutions to specific problems.

The Editors.

INTRODUCTION

Since 1961, the Business History and Economic Life Program has been training teachers and developing case materials to augment and strengthen economic offerings currently available in the secondary schools. Business touches all our lives. The history and anecdotes surrounding it provide a colorful approach to the reasons for learning economics in the first place. They can be adapted to arouse and sustain interest in the many facets of economic business life--both public and private.

This collection of cases has been prepared by classroom teachers with secondary school students in mind. Such a product is a reflection of the talent, experience, and sensitivity that exists among the practitioners. As one uses the cases it should be noted that the intent is to develop economic understanding rather than the detailed perspective of a business decision-maker.

Real economic situations, within the context of a regular secondary school social studies curriculum, can lay the groundwork for a realistic understanding of economic problems, for both the terminal students and for those who will later take more advanced analysis courses.

Business cases are particularly effective for introducing economics in the classroom because they center on real people in specific situations. They provide abundant material for analysing and understanding microeconomic relationships--e.g. business organization, competitive mechanisms, economic motivation and the like.

In addition, the information in a case extends beyond the single firm, enabling the teacher to move into a number of areas. Furthermore, by providing concrete examples of business reacting to changing economic conditions, the cases are able to give far more meaning to the student than abstract entities.

The cases in this casebook are meant to provoke discussion amongst young people in order that they may begin to investigate what goes into the making of a decision. For more detailed information on how to utilize cases, case method, and the making of one's own cases, please consult Paul H. Tedesco, Teaching With Case Studies (Boston: The Federal Reserve Bank, 1974). Copies of this publication can be obtained free by writing the Public Information Center, Federal Reserve Bank of Boston, Boston, MA 02106.

Other materials that might be of assistance are contained in a quarterly publication of the BHelp project, The BHelp Newsletter. In particular, Paul H. Tedesco, "A Bibliography of Materials on the Case Method for Teachers" and the "BHelp Case Bibliography" in this publication (Vol. IX, No. 4--Fall 1976)should be especially useful.

THE COURTSHIP OF MILLERS FALLS

EG&G was originally established as a scientifically-oriented problem solving enterprise. For several years, EG&G performed research and development work almost exclusively for the United States Atomic Energy Commission (now the Energy Research and Development Administration) and its national laboratories. EG&G pursued a policy of company-funded research and development, taking advantage of its increasing capabilities in such fields as high energy discharge components, ultra-fast electrical measurements, electronic flash components and systems, nuclear instrumentation, and oceanography. As sales and earnings staedily grew under this arrangement, it eventually became apparent that the company would have to develop commercial outlets for its technical expertise in order to build a lasting base for future growth.

During the late 1960's, this movement away from government regulated contracts took the form of "growth by diversification" into the private sector. This growth began in earnest through an active and extensively planned program of acquisition and affiliation. EG&G had some initial success in their program of diversification, but made no new acquisitions between 1969 and 1972 due to the cut-backs in defense spending and a loss on a large air force contract.

In 1972, EG&G considered acquiring the Millers Falls Paper Company, a producer of high-quality paper with an excellent performance record.

In 1902, four Holyoke, Massachusetts, residents founded the Millers Falls Paper Company. The company was then and is now the major industry of Millers Falls, Massachusetts. The business was essentially family-owned during the first 47 years of its existence.

This case was prepared by Maria Belanger (Groton-Dunstable, Massachusetts, Regional Schools), Thomas Belanger (Waltham, Massachusetts, Public Schools), and Thomas Smigliani (Milton, Massachusetts, Public Schools) under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

In 1949, the evolution of a new type of professional management began at Millers Falls Paper and the modern version of the company began to take shape.

By 1960 the company was part of an industry which had made a significant contribution to the nation's economy. The company specialized in the manufacture of only two categories of paper: special technical and graphic papers, and writing and printing grades. The plant was expanded in 1970 and two new and very successful product lines, "Ezerase Bond" and "Ezerase Onionskin," and "Millers Falls Bond," were introduced.

A high degree of morale existed among the employees of Millers Falls. Mr. Homer J. Walker, president of the company, had worked his way up to the top management position and was genuinely well-liked and respected by all employees. Millers Falls was well ahead of its time in implementing a profit-sharing plan in 1951. In the years prior to 1972, many fringe benefits were extended to company employees. The pension plan and health and sickness benefits enjoyed by the workers were typical of the industry and were supported financially by company contributions. The company had gone far beyond standard benefit packages. For example, the company offered summer work for the children of employees enrolled in post-secondary education. Often these young people were able to help themselves by making as much as $1500 in a summer. The company felt it benefited because it was able to use these young people to maintain production in the vacation-filled summer season.

In 1972, this successful paper company was beginning to feel the effects of a pulp shortage, inventory slowdown, and the increasingly watchful eye of the Environmental Protection Agency. Rigid guidelines were set in the area of water pollution which forced Millers Falls to cut its discharge of pollutants into the Millers River (a tributary of the Connecticut River) by 80 per cent by 1977 and by 100 per cent by 1985. This unanticipated expense would tie-up considerable profits in the necessary compliance.

Very early in 1972, an independent stock broker informed the EG&G management that he had researched a company which might be a very profitable acquisition. At that time, no one in Millers Falls was aware that anyone was contemplating acquisition or was anyone in the company's management pursuing acquisition. It just so happened that a member of EG&G's management team had lived for many years in Millers Falls and he became a factor when discussions took place as to the feasibility of acquiring Millers Falls.

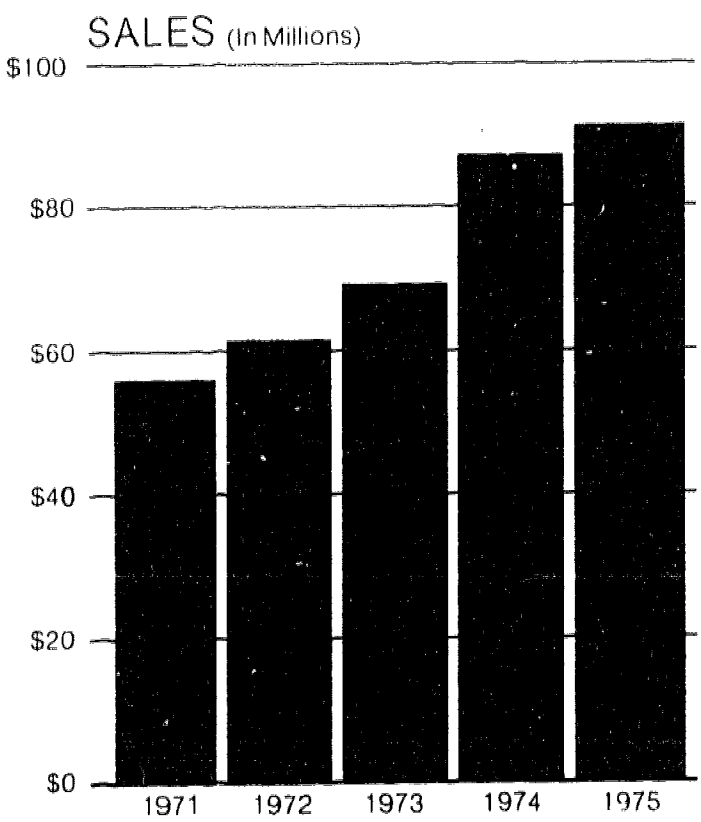
Before proceeding further, this particular individual asked that a financial analysis of Millers Falls Paper be made before the EG&G board of directors voted on the acquisition. That financial probe suggested that:

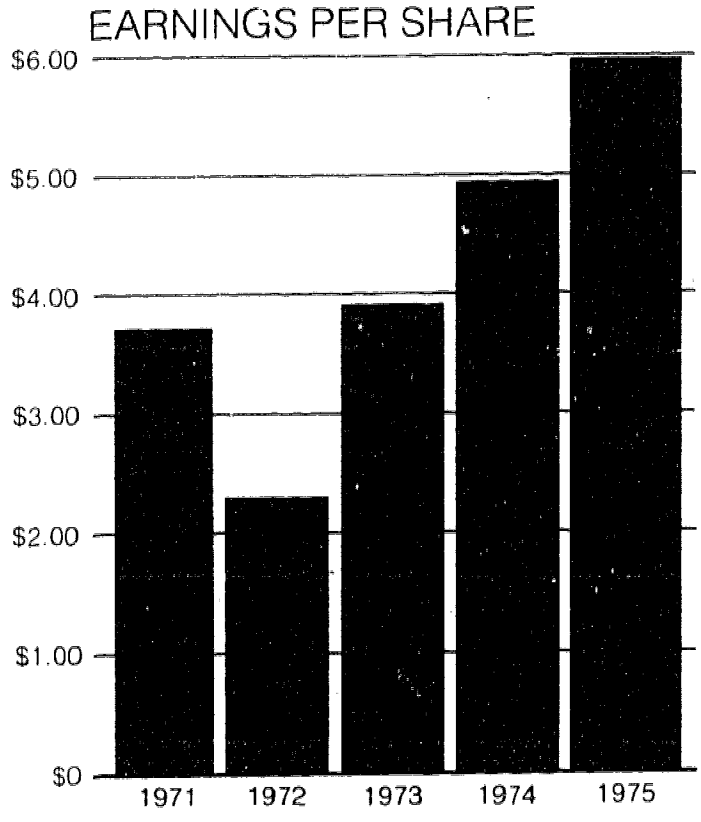
1. earnings after taxes had been flat for the past five years.
2. at this point in time, the EPA requirements will necessitate spending $350,000 over the next few years, and maybe more.
3. EG&G has no experience in this type of industry.
4. Millers Falls had refused an earlier acquisition offer by another company.
5. EPA regulations will be a significant cost factor over the next decade.

If you were a member of EG&G's board of directors, how would you proceed in this matter of the acquisition of the Millers Falls Paper Company?

THE UNDERWEAR COMPANY THAT WORE WELL

The William Carter Company is a knit apparel manufacturer which has been operating since 1864. The company sells nationally advertised knitwear to retailers, which include leading department and specialty stores. Unit sales during the past five years have remained relatively stable while dollar sales have increased more than 50 per cent. A slight decline in sleepers and sleepwear as a percentage of the total sales has been attributed by company management to the overall decline in the total sleepwear market due, in large part, to the higher prices of flame retardant garments.





This case was prepared by John Curboy and Robert O'Regan, both of the Holliston, Massachusetts, Public Schools, and Alice Ungethuen (Needham, Massachusetts, Public Schools), under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Four members of the Carter family have been presidents of the company and many other Carters have been dispersed throughout the management. Carter family involvement is still the case today as the Carter family has a voting trust of 53 per cent of the company's stock. A tradition of quality, despite the declining birth rate, has helped the William Carter Company set new records in both sales and profits for the third consecutive year.

Today, Carter's employs from 4,400 to 5,000 workers. Over the years the company has expanded its plant facilities. The Lower Mill, Carter's No. 2, located near Rosemary Lake in Needham, was acquired in 1888 and put into use by Carter's in 1902. The Lower Mill was sold in the 1930's. In 1909, 100,000 square feet of floor space was acquired in Springfield, Massachusetts, for sewing operations. This plant space was sold in 1973 with inefficiency, cost of labor, taxes, and the neighborhood given as the reasons. In 1925, the Barnesville, Georgia, plant with 247,000 square feet was acquired. Additions have been made to this plant, which is also a distribution center. In 1946, Carter's enlarged again with another plant in Forsyth, Georgia, where the cut fabric knitted in the Barnesville unit is sewn into sleepwear. These garments are then shipped to Needham for packaging and distribution.

Between 1954 and 1963, Carter's opened plants in Senatobia, Mississippi ('Spanky' pants and briefs); Thomaston, Georgia (toddler's wear); and Centreville, Mississippi (shirts). In 1964, the company took the opportunity to purchase Singing Needles, Inc. in Leola, Pennsylvania, which had been supplying Carter's with infant's wear.

Carter's sales have caused the company to decide to look for a new plant to take care of the increased business. As a labor intensive industry, Carter's must be concerned with the labor costs of any proposed sites. At one time company management pursued briefly the notion of a twin plant concept utilizing operations in Texas and Mexico. This, and other possibilities, was dropped and the company decided that Texas was where they would conduct their search for a new site.

The company sent their vice president and treasurer, Richard F. Armknecht, Jr., to Texas to examine potential sites. Carter's feels that its needs would be met with a new or present building with 30,000 square feet, available land of 15 acres so that the plant could be expanded to 60,000 square feet if the need should arise. The maximum price that the company is willing to pay is $250,000.

Mr. Armknecht examined the following sites:

1. an existing plant with 30,000 square feet on 8 acres of land
   building is two years old
   air conditioned, but some parts appear to be missing
   has necessary toilet facilities

2. former supermarket with 15,000 square feet on 2 acres
   cost is $150,000
   air conditioned
   could be rented for two to three years for $1.00/square foot with lease costs applied to purchase price

3. former 13,700 square foot warehouse
   no heat, air conditioning, or lavatories
   ceilings are high
   price is $195,000

4. 50,000 square foot knocked-down building which could be erected for $3.50 per square foot
   would need to buy land and pour concrete slab
   interior modifications would be extra

5. 52 acres with a substantial home on it
   cost is $125,000
   house and two acres could be sold for $65,000
   water rights on remaining land could be sold for $350 per acre

6. new industrial park near an airport

   could be leased for 10-15 years at a rate which would pay out the cost of the industrial foundation; $5,000 per acre plus interest; at end of lease period, lease expense would become "nominal"

7. large industrial park where one of first two plants going up is a Haggar factory

   the city would be involved in the financing

   land cost is $2,000 per acre

Carter's management now has a decision to make which will not only affect the future growth of the company, but also the development of one of these Texas communities.

WHICH ONE WILL IT BE?

A POINT OF VIEW

Mr. William Paterson, Assistant General Manager of the Cambridge Electric Light Company, has approached your public relations firm with a proposal. Mr. Paterson's utility company has come under pressure lately from such groups as "Fair Share," ecology groups, consumer groups, and state governmental agencies. Because of these concerns, he has asked your firm to devise a public relations campaign which would better communicate to the public the serious problems faced by his utility company.

After accepting Mr. Paterson's request for assistance, you meet with him and Mr. Kenneth Dery, the plant superintendent. They inform you that CEL is a privately owned corporation, located on the banks of the Charles River, in Cambridge, Massachusetts. The company supplies electricity to the City of Cambridge and the Town of Belmont. According to Mr. Paterson, one of the most serious problems affecting plant operation and public image is the use of fuel oil. He tells you that CEL's Cambridge plant was originally designed to use coal, oil, or natural gas for fuel. Economics decided which fuel would be used.

However, since coal storage and handling facilities are now almost non-existant in this area; and as environmental agencies forbid its use; and as it is now as expensive as oil to use; and as gas is normally unavailable, oil must be used to produce steam for the turbines. He also says that the oil used is the lowest grade oil available; so low in fact that it must be heated just to keep it flowing. By state and federal regulations, utilities must also burn oil that produces no more than .5 per cent sulphur dioxide (SO_2) in the air.

This case was prepared by Michael Donovan (Bedford, Massachusetts, Public Schools), Donald Fortunato (Arlington, Massachusetts, Public Schools), and John Leone (Arlington, Massachusetts, Public Schools) under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Since the price of oil has increased from approximately $4 per barrel in 1973 to approximately $12 per barrel currently, the cost to customers has increased dramatically. The utilities have tried to pass some of this increase on to the consumer through a fuel adjustment charge as legislated by the state. In this manner, as electric rates are not directly involved, this cost can thereby be raised or lowered to consumers more easily as the price of fuel goes up and down. In any case, a rate change or a change in the fuel adjustment charge must be approved by the appropriate governmental agency after public hearings are held. (The company makes no profit on the fuel charge. It flows through to the oil producers.)

On the issue of pollution, Mr. Dery feels that CEL could burn fuel oil as high as 3 per cent SO_2 without significantly raising pollution levels. This would save the company (and eventually its customers) about four to six dollars per barrel of oil. CEL executives base this information on a daily computerized chart showing the SO_2 content of the air over eastern Massachusetts. According to their interpretation of these charts, the air pollution levels are not even one-half those allowed by state law. They contend that on a cold day, a cluster of homes will emit a higher degree of pollution than a utility. The plant superintendent feels that CEL is often blamed for smoke and pollution that comes from other sources. To guard against this situation, CEL monitors its own chimneys very closely, using closed circuit TV and an alarm system that warns the boiler operators when too much smoke has developed.

Mr. Paterson also feels that the public should know that the water the company uses for condenser cooling is screened and treated before it is used. The water is discharged at a somewhat higher temperature than when taken in. This heat dissipates very rapidly, however, with little or no effect on the environment. They also have other equipment--a small motor boat and floating booms--to contain any oil leaks that might take place and pollute the water

source.

Finally, Mr. Paterson feels that previous attempts to make the public aware of CEL's problems have resulted in negative results. For example, when oil prices first skyrocketed, and the oil embargo was in effect, the utility companies asked consumers to conserve by using less electricity or face daily blackouts. This action resulted in such a drop in usage and revenues that rates had to be increased to cover the operating costs of the companies and customers were angered even more.

The situation has now reached a point where a group has proposed a plan for the Commonwealth of Massachusetts to establish a Massachusetts Power Authority to take over the electric utilities and run that business. Fanning out throughout the state, representatives of this group set up tables in supermarkets and shopping centers and, under signs which said "Sign Here for Lower Electric Rates," encouraged voters to sign what was actually an initiative petition for the establishment of a Massachusetts Power Authority. This petition was fully considered by the state legislature and was defeated by the legislators by a 4-1 vote. The proposing group then went out again and under the same signs, "Sign Here for Lower Electric Rates," collected enough additional voter signatures to have the initiative petition placed on the ballot to be voted on in the 1976 fall elections.

In addition to restoring and improving their image, the power companies must convince the public that a state take over of the electric business will cause more problems than it will solve. Voters must be brought to realize that utilities pay the highest taxes in the communities which they serve and they employ mostly local people. If the state should take over, where would the taxes come from as state facilities generally pay no taxes, to whom could customers complain if they didn't like the service they were getting, and would there be drastic changes in the employment picture in this industry?

Based on the information that you gathered during your visit with Mr. Paterson and the CEL plant superintendent, what recommendations and programs would you suggest to resolve these problems?

HOW TO SURVIVE IN A DYING INDUSTRY!

A mere 15 years ago, there were close to 1,000 shoe manufacturing companies in the United States. Today, about 700 remain. Foreign imports which then accounted for about 6 per cent of total U.S. domestic sales, now account for about 45 per cent. The impact has been heaviest in women's shoes.

The Knapp Shoe Company of Brockton, Massachusetts, was originated by two brothers as a marketing company. The Knapp brothers selected the distribution method of direct selling by which a salesperson goes door-to-door in order to sell the product.

In the Direct Sales Division, a nationwide force of 20,000 counselors, or sales agents, are employed, most on a part-time basis. These counselors are recruited mostly through newspapers and also through advertisements in the specialized "sales opportunities" magazines. Counselors work on a commission basis and earn 20 per cent of their sales. The annual turnover rate in the work force is about 5,000. Counselors visit customers mostly at their places of work, bringing with them the Knapp catalogue. The customer selects the size and style shoe desired and the order is sent into Knapp. The company reports that its customers, by and large, are a very "brand loyal" group and return to buy from Knapp time and again. In 1975, sales by the nationwide Knapp counselors accounted for about 30 per cent of total sales.

As the market for their shoes increased, the Knapps decided to expand their operations and enter into the manufacturing of shoes. This was done around World War II and factories were established in Brockton; Lewiston, Maine; and, later, Derry, New Hampshire.

At the same time, the Knapp Company added another distributive method to their direct selling technique. They entered into the whole-

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This case was was prepared by Barbara Ferreira and Mary Gallagher, both of Notre Dame Academy, Hingham, Massachusetts, under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

sale market by providing their product to a large national mail-order department store chain under private label.

The post-World War II era saw Knapp's expansion into the retail market with the opening of retail stores in Boston and Brockton. There are currently 56 nationwide Knapp retail stores mostly located in large metropolitan areas.

The Knapp Shoe Company currently operates three shoe factories, all in New England, at Lewiston, Maine; Derry, New Hampshire and New Bedford, Massachusetts. The New Bedford factory owned by Knapp uses 230,000 square feet of an old 287,000 square foot textile factory and employs about 250 workers. Because materials, machinery, and the final products are light, it is practical to locate in multi-story buildings. The machinery used in the manufacture of shoes consumes relatively little energy as they are of low horsepower. Even so, energy and heating costs are two of the most rapidly rising expenses involved in the company in terms of rate of increase.

In 1966, the company acquired the King-Size Company. King-Size (1948) began as a mail-order company selling clothes for the large and tall man. At one time, King-Size had virtually no competition in this market, but recently both J.C.Penny and Sears have entered with their own lines. King-Size is a separate division of Knapp, independently managed because of the great amount of expertise and specialized knowledge needed for this type of enterprise. King-Size accounted for one third of the total sales of the company in 1975, and presently operates 18 retail stores.

In addition to their direct selling, wholesale, and retail operations, Knapp has added "Direct Mail" sales. This is a procedure to follow-up on those customers who have been lost or abandoned by the counselor in the Direct Selling division.

The Franchise Division of the Knapp Shoe Company has expanded recently. These franchise stores are run by independent owner/ operators who set up arrangments with Knapp to buy and retail under the Knapp name and to pay royalties. There are currently 16 franchise stores.

Shortly after the franchise operations were begun, Knapp Shoe established its "Saf-Test" Division. This division deals exclusively with the steel-toe safety shoe which it sells to industrial accounts. As a result of the Occupational Safety and Health Act (OSHA), passed in 1970, this division has expanded considerably and now accounts for a substantial portion of total sales.

Knapp Shoe Company produces for a specialized market. Although some women's shoes are sold, as well as men's dress and casual shoes, the largest part of the business is in the area of men's work shoes.

In 1922 when it started, the company was owned and managed by the Knapp brothers. In the 1940's, the Knapps sold their business to a trust which held it for the benefit of New York University. This ownership lasted until 1970. Then the company was purchased by a management group with the aid of long term financing by institutional investors, principally insurance companies. Knapp, therefore, is a privately held company. With its new corporate headquarters finished in 1971, Knapp presents a very progressive image to the world.

BUT WHAT IS THE FUTURE OF THE SHOE INDUSTRY IN THE UNITED STATES?

TEACHER'S NOTE: Knapp-King Size Company

Theme...The survival of a company in a declining industry.

General objectives and concepts...

1. mastery of basic vocabulary included in the case
2. recognition of relationship between distribution methods and success of the company
3. evaluation of distribution methods
4. role of advertising
5. recognize the effect of foreign imports on the industry
6. explore factors in possible factory site selection
7. explore reinforcement effect of distribution methods
   a. direct selling
   b. wholesale
   c. retail
   d. franchise
   e. direct mail
   f. Saf-Test Division
8. pinpoint advantages and disadvantages of 'counselor' system
9. increased control over means of production and distribution
10. control of corporate financial investments

Recommended additional materials...

1. Sears catalogue
2. Knapp Shoe catalogue
3. historical materials on New England shoe industry
4. copy of OSHA (1970)

Questions for discussion...

1. Why did the market for Knapps product increase and lead to their expansion into manufacturing?
2. How does each distribution method build upon and protect the preceeding one?
3. Why did Knapp enter the retail market?
4. Why was the franchise distribution method begun?
5. Why would the passage of OSHA affect the Knapp Company?
6. Why would Knapp establish its retail stores in large metropolitan areas?
7. What are the advantages to Knapp of a work force such as the 'counselor?' How does Knapp's approach compare to Avon or Tupperware?
8. What special problems might a work force of this type present?
9. What are the advantages of multi-story building use?
10. What are some of the factors that you might have to consider when deciding where to locate a factory?

11. How does the cost of energy affect the production process involved in manufacturing shoes? How does such cost compare with other manufacturing industries?

12. How do you account for Knapp's ability to not only continue to operate, but to actually expand, while others in this industry have failed?

Activities...

1. You are the advertising agent contracted by Knapp to draw up its next ad campaign. How would you go about this?

2. As personnel manager of Knapps, you are faced with declining sales in the Direct Selling Division. It has come to your attention that several hundred counselors are selling zero to five pairs of shoes per month. How would you solve this problem?

3. Role play a selling situation between a Knapp counselor and a customer.

4. Role play a person seeking a franchise with the Knapp Company. Get at the positive and negative aspects of this type of operation.

FIRST NATIONAL STORES

First National Stores, dating back to 1926-1927, grew out of a family-owned market featuring fish, meat, and poultry. The O'Keefe family chain developed in the New England states, New York, and New Jersey. In the 1960's and early 1970's, it became apparent that a shift from family control was taking place. The Madison Fund, a holding company, gained control of 62 per cent of First National's stock. In the 1972 Madison Fund Annual Report, First National was shown as second among the top ten investments held by the fund. With this shift in control came a change in management, but with a consideration for the earlier type management developed by the O'Keefe family.

In 1961, First National negotiated purchase of some of the Safeway stores in the New York region. The success in restoring these stores to a profitable operation led to the assignment of some members of the New York management to Massachusetts, thus the New England regional office and warehouse were located in Somerville, adjacent to Boston.

Efforts made to cause a turnabout of sluggish business included greater attention to market research, site evaluations, demographic trends, review of operations including manufacturing some of the company's own products, and technological advances (which are reported very slow in marketing industry as compared with other industries).

How does management decide upon further development and compete for profits in an industry noted as having one of the smallest profit margins in American business?

What type of competition should management react to? First National Stores operates in many areas in which A&P stores also operate. They have watched carefully A&P's attempt to reorganize,

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This case was prepared by Helen Harris and Frank Longo, both of the Blue Hills Regional Vocational Technical School, Canton, Massachusetts, under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

including the well-publicized "W.E.O." promotion which centered on price competition.

Competition on the basis of price factor is an extremely hazardous game in the supermarket industry. The average profit margin is generally accepted as being only one per cent of gross sales In fact, the extremely narrow margin of profit makes speculative decisions and business projections extremely critical, with the margin for error as narrow as the margin for profits. What alternatives might the First National Stores' management consider in order to increase their profit margin?

What are some points to be considered in choosing the site for a new store?

If you were building a new store, what features would you include to attract new customers?

Why doesn't discount selling become a more common practice in the supermarket industry?

What effects do strikes or other labor problems have on a supermarket chain?

TEACHER'S NOTE: First National Stores

Prior to reading the case, a preview of the vocabulary listed below is suggested to aid student comprehension of terms which might be encountered in the case or in the discussion.

marketing chain	depressed economy	capital
facilities	management	labor
diversification	vertical integration	holding company
corporation	sole proprietorship	Madison Fund
controlling interest	stock	market research
site evaluation	profit margin	price competition
demography	discount selling	non-food lines

Resource materials:
New York Times Index
Dun and Bradstreet
First National Stores Annual Reports
Madison Fund Annual Report

Student activities:

1. Visit a local First National store and have students construct a plan of space allocated to each food item and features. Review, compare, and contrast with reports by other students who did similar plans of a First National.

2. Plan a visit to a competitor store and construct a plan similar to that in #1 above.

3. Compare local advertising for First National Stores and its competitors.

HERE SHOULD WE ROUND THE GROUND ROUND?

The Ground Round, a recent addition by the Howard Johnson Com- y to its Howard Johnson's Restaurants and Red Coach Grills, is a kind of eating establishment that endeavors to satisfy yet an- er taste in the American restaurant market. This new division has ntified a number of potential market areas--it has decided that area between Boston and Manchester, New Hampshire, is a primary ket area with Worcester, Massachusetts, and Concord, New Hampshire, contiguous units.

The overall decision to expand into a new market is based upon careful demographic study. There are distinctly different char- eristics for each of the three restaurant types (HO JO, Red Coach, und Round) in the Howard Johnson Company; no single set of demo- phics is a valuable criteria for all three units.

The appeal of the Ground Round is to a number of different tors in the market place that surprisingly violate basic marketing nciples. The emphasis of the Ground Round is to every aspect of e market--the secretary, housewives, kids, executives, the elderly-- e have something for everybody." Each part of the day and the week marketed differently--the afternoon customers are essentially oppers; evening hours cater to the adult patron, especially on week- ds when live entertainment is featured. Sunday afternoon is a great mily time, and to draw the younger families, entertainment, such as clown, is furnished.

This formula, while successful in some markets, has been un- ccessful or modified in others. California is regarded as an un- ccessful market area and, at present, the Ground Round is with- awing after diminishing sales and poor acceptance to market riations.

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is case was prepared by Robert Jennings, John Laitinen, and Joseph Neil, all of the Social Studies Department, Milton High School, lton, Massachusetts, under the supervision of the 1976 NU/FEI/BHELP mmer Social Studies Workshop faculty, as a basis for class discuss- n rather than to illustrate either effective or ineffective handling a particular situation.

Nothing seemed to work in California. Almost 50 per cent of the west coast patrons did not like the use of peanut shells on the floor or the idea of eating from a basket. Elsewhere there were no objections to these ideas. The people in Minnesota did not like the idea of showing child-oriented films nor would they bring their children into a restaurant that served drinks. To effectively market Ground Round in New England, it was decided to have a clown on Sundays, eliminate the movies, and keep the drinks. The more sophisticated do a limited amount of drinking with children present.

In the St. Joseph, Missouri area Ground Round caught on so well that it has replaced the local country club as the in place. On the weekends, it is not unusual to observe patrons arriving in the appropriate club attire. The parking lot gives vivid testimony to this point. (NOTE: except for California, only one other Ground Round has had to close and that was caused largely by an unforeseen shift in area demographics)

Some of the Ground Rounds now in successful operation are recycled HO JO orange-rooted restaurants that either failed or suffered from a decline in business. Here a dramatic profit turn-around has occurred which helps convert a liability to an asset. The success of Ground Round depends largely on how well it identifies its customers--they are not HO JO transients. In catering to this more stationary local market, Ground Round has also utilized effectively interior decorations which center upon nostalgic memorabilia.

To locate, build, and start operating a Ground Round is a time-consuming enterprise. The first requirement is a site between 44,000 to 60,000 square feet which can contain a 5,300 square foot building. For all new construction, the land and building are leased for a period of 20 years with the option to renew for shorter periods. In the case of existing properties, the lease period is 10 years with the usual options to renew.

The company maintains an active Real Estate Department that has field agents constantly looking for potential new sites. Once a prospective site has been located, various experts make a series of

investigations to establish the usability of the site. The zoning regulations must be established to see what use of the land in question is allowed, i.e. commercial, light business, etc. As this is being done, other types of potential business restrictions are being studied. In some places, restaurants are not permitted to have a liquor license; they must have a certain amount of frontage; or the building must conform to specific size regulations which might reduce profits.

A deed search must also be undertaken to establish clear ownership of the property, and any and all restrictions are noted. There may be certain town or city restrictions, as well as possible deeded restrictions, which might force the company to abandon the site.

Since almost all of the Howard Johnson Company restaurants are under lease arrangements, there is a major concern for financing. Sometimes the bank will not approve the arrangements negotiated by the company and may add restrictive covenants that could drastically change the entire business arrangement. Usually a person has an easier time arranging acceptable financing if the potential business is part of a national unit. So, long delays for HO JO initiated projects are not usual, but the company is still subject to the whims of the money market.

Once financing has been obtained, the real estate people will develop a project report which analyses fully the site and the proposed new market. Special attention is given to population density statistics within a three to five mile radius, mean and median income levels, competition, employment projections, anticipated sales, and construction of a new building versus the alteration of an existing one. This report now goes before a Real Estate Committee which examines it thoroughly. This committee is a cross-section of the company which must ask those hard questions (Is the new site going to be difficult to service? Will delivery trucks have to deviate in an uneconomic way from already established routes? Are the service roads too narrow?) in deciding whether or not to accept the site location. After the project report has been pushed and pulled, a vote is taken.

Assuming that a favorable vote is taken, the project report now moves on to the Legal Department where it is checked out against the law covering such arrangements. Here the actual binding terms of the arrangement will be worked out with the landlord or landowner, local governmental agencies, and the company. An application for a building permit is made to the proper town or city official. At the same time the company will also submit an application for a Common Victuallers License. These are time-consuming procedures, but necessary if one expects to achieve the end result, a Ground Round in operation.

Zoning of the proposed site, and possible zoning variances, are checked thoroughly. The completed plans are submitted to the local planning board for approval. With increased concern for the environment, and the requirements of the Environmental Protection Agency, problems of smoke, odors, and sewerage must be handled carefully. The health inspector must approve all such areas. When all these preliminary steps have been taken, a building permit is issued which allows actual construction to begin.

When the building is completed, the company must apply for a Certificate of Occupancy which requires an inspection visit by the fire and health inspectors. When all the regulations have been met, and all the necessary licenses obtained, it is time for the 'Grand Opening.' New construction usually requires two years to come on line, while this process can be shortened to six to eight months if the company acquires an existing building and converts.

Once open for business, Ground Round goes out of its way to maintain good community relations. Saturday night is usually a big sales night for a Ground Round. To facilitate a smooth operation, management will contact local police forces and engage off duty police officers for security. Extra employees are also hired and every detail of the operation is carefully monitored, especially those parts that pertain to local ordnances concerning parking and the consumption of alcoholic beverages. Such concern for the community accrues many benefits to the Ground Round and to the

company.

How would you decide on which site you would locate a Ground Round?

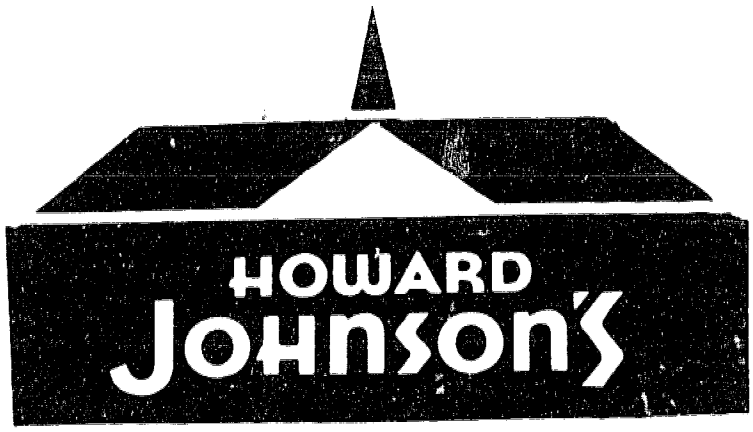
SITE A:
1. Located on Route 30, a high-volume road (24,000 cars per day).
2. Located behind a large discount store.
3. A large condominium is within walking distance.
4. Location is not at an intersection; only one entrance and exit.
5. A new 6,500 square foot building would be constructed; this is the usual size for a new Ground Round.
6. Rent would be between $35,000-$40,000 per year.
7. Location is just beyond a Massachusetts Turnpike exit/entrance.

Site B:
1. Located on Route 9, a high-volume divided highway between Boston and Worcester (70,000 cars per day).
2. Location is highly visible.
3. Conversion of a large formal restaurant will be necessary.
4. More than ample parking adjacent to largest shopping plaza in the area.
5. Building is 15,000 square feet.
6. Anticipated rent is $60,000 per year.
7. Volume is projected at $150,000 above the other locations ($850,000 as compared to $700,000).
8. Many restaurants are bidding for this location.
9. A liquor license is available on this site (a liquor license is also available at the other two sites).

SITE C:

1. Located on Route 30 (see #1, Site A).
2. Corner location with street lights (volume 25,000 cars per day one way, 24,000 cars per day the other way).
3. Rent is $36,000 per year.
4. To build here would require conversion of two fast food stores, which have failed, into one building.
5. Parking area will be shared.
6. In connecting the two buildings, there might be a water table problem.
7. Location is one half mile from Route 9 and 500 yards from an exit/entrance of the Massachusetts Turnpike.
8. Conversion of this site will be approximately $100,000 less than new construction.

WHICH SITE WOULD YOU CHOOSE? and why?



LORING MILLS

John Fairweather has decided to invest part of his savings in corporate stock. He is considering a fairly long-term investment which will produce dependable yearly dividends. A friend suggests that he consider investing in a local corporation, Loring Mills, which has experienced considerable growth over the last 20 years. During his investigation of this corporation John uncovers the following information.

Loring Mills began as a small New England mill on the banks of the Assabet River in Massachusetts. Its founder, Ezekiel Loring, had fought in the Civil War. While in the South he realized that there was a growing market for jute textiles such as those used in the baling of cotton and other agricultural products. The southern jute textile industry had been severely affected by the war. Enterprising Yankee that he was, Ezekiel embarked upon the manufacturing of jute textiles upon his return to Massachusetts.

His venture proved quite successful. A large and growing market existed for jute prodcuts. Loring Mills produced jute textiles, cordage, twine, sacking and backing for carpets. Business was so successful that Loring purchased land and established a mill in India. He also decided to issue public stock to develop more capital for expansion. After Ezekiel's death in 1892, ownership of the company gradually passed from the hands of the Loring family, and by 1900 all family ties with the firm had ended.

From 1900 to 1950 Loring Mills maintained a steady growth, expanding as the market for jute products changed and developed over the years. The firm was active in developing and marketing new products related to its industry. It purchased many smaller companies adding their manufacturing capacity to its own. Its largest market consisted of the home furnishings industry which utilized jute products for

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This case was prepared by Elaine B. Kadets, David Moore, and Janet H. Mug, all of the Newton, Massachusetts, Public Schools, under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

carpet backing and webbing in furniture. Loring Mills also continued to produce packaging materials.

The 1950's experienced a rapidly changing technology in Loring's traditional market. New products requiring new packaging materials were being developed and synthetic fibers were replacing the traditional jute in many home furnishings. Loring's management decided to enter this new market and began to diversify its manufacturing capabilities. From 1950 to 1970 Loring purchased over 25 smaller companies already engaged, to one degree or another, in the manufacturing of these new products. Foam rubber backing for carpets, non-woven materials for home furnishings, and specially coated papers for packaging were among Loring's new lines of merchandise. Loring Mills was quite successful in making this transition.

In 1969 Loring decided to enter an entirely new market, the mobile and modular home industry, and purchased several plants in various parts of the country. This seemed a logical extension of their interest in the home furnishing market. For the first few years Loring did quite well with its new venture. However, beginning by late 1972, a recession began, resulting in high unemployment, higher interest rates, and fewer housing starts. Loring and other mobile home manufacturers were severely affected. Shipments of mobile homes dropped 35 per cent alone in 1974. Loring decided, at first, to consolidate its mobile home plants in an effort to stay in the industry However, as losses continued, Loring decided to discontinue its manufactured housing operation and dispose of its plants at a loss of over three million dollars. As a result, dividends on common stock were 35 per cent less in 1975 than they had been in the previous four years.

Loring Mills

Consolidated Balance Sheet
(in thousands of dollars)

ASSESTS	1971	1972	1973	1974	1975
Current Assests:					
Cash, Accounts Receivable	27,300	31,900	36,400	32,500	31.400
Inventories	35,900	33,400	42,700	43,000	41,100
Other (Pre-paid expenses)	2,500	2,000	1,900	2,300	7,600
Total Current Assests:	65,700	67,300	81,000	77,800	80,100
Fixed Assests:					
Property, plant, equipment	33,000	36,400	39,000	39,300	34,600
Other Assests:	8,300	8,500	8,200	8,300	8,000
TOTAL ASSESTS	107,000	112,200	128,200	125,400	122,700
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current Liabilities (loans, accounts payable, taxes)	20,000	20,000	31,000	26,000	31,000
Long-term Debt (deferred taxes, provisions for pensions)	27,000	32,300	36,000	36,500	36,500
Stockholders' Equity	22,000	22,000	22,200	22,200	22,200
Reinvested Earnings	28,000	37,700	39,000	40,700	33,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	107,000	112,200	128,200	125,400	122,700

Loring Mills

Income Statement

(all numbers are in thousands of dollars except items 7 & 8)

		1971	1972	1973	1974	197
1.	Revenues - Gross Sales	150,000	175,000	195,000	210,000	180,00
2.	Expenses Cost of sales Depreciation Interest	142,000	164,000	184,000	199,000	184,00
3.	Income before Taxes From continuing operations, 1-2=3	8,525	11,052	11,149	12,933	-2,27
4.	Taxes Federal, state, and foreign	4,400	5,171	5,223	5,739	1,09
5.	Net Loss/Income from Discontinued Operations	+976	+595	-1,167	-1,302	-3,74
6.	Net Income available for Preferred and Common Stock 3-4+5=6	5,101	6,476	4,759	5,892	4,92
7.	Earnings per share of Common Stock from all operations	$1.48	$1.79	$1.31	$1.63	-$1.
8.	Cash dividends per share of Common Stock	$1.08	$1.08	$1.08	$1.08	$.7

Questions: Observation and analysis of the Balance Sheet

1. define in your own words assets, liabilities, equity, debt, reinvested earnings.

2. Of the above words, which word or words represent the company's profit? How was this profit disposed of? Why was it disposed of in this way?

3. What does the term inventories stand for? Why is this listed as an asset?

4. Why are property, plant, and equipment listed as assets? What is their relationship to wealth?

Questions: Observation and analysis of the Income Statement

1. Define the terms gross sales, expenses, and net income as used in the income statement.

2. What mathematical relationship exists between gross sales, expenses, taxes, net loss, and net income in the income statement?

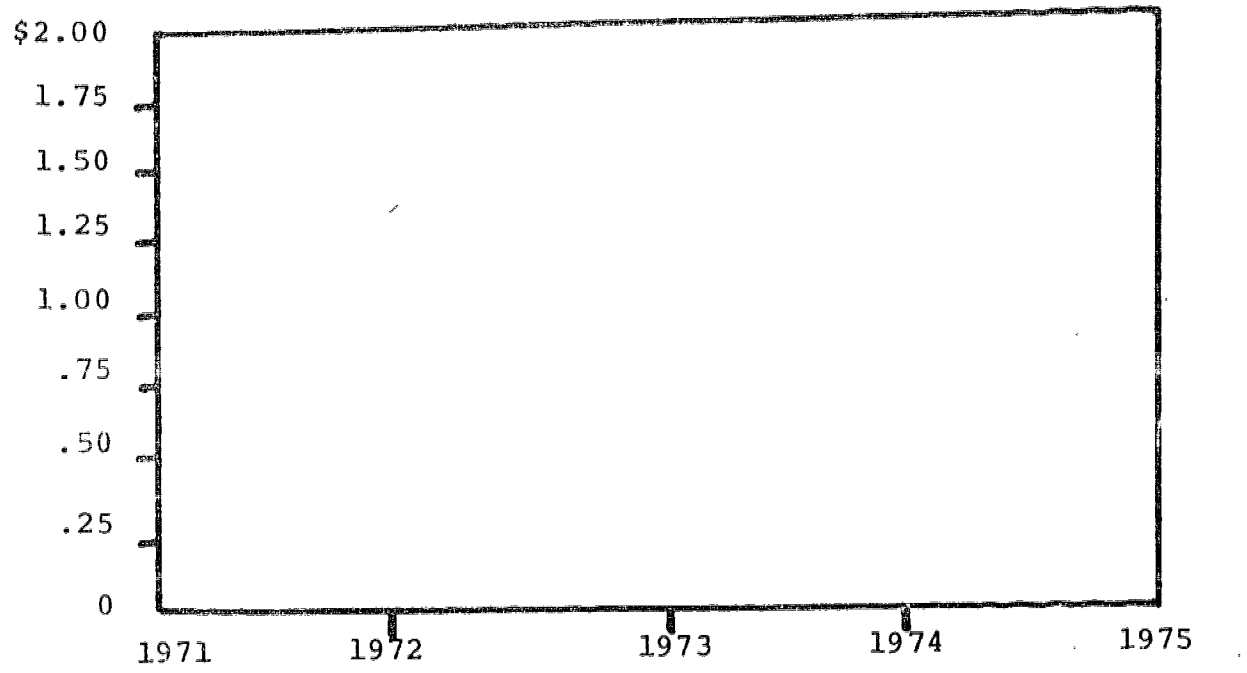
3. Is there any fluctuation in the Loring net income over the past five years?

   a. According to the information sheet that you have read, to what might you attribute this change?

   b. Statistically, according to the income statement, to what would you attribute this change?

4. How do you account for Loring's taxes in 1975 being a credit instead of a deduction from their income?

5. Why do cash dividends remain the same while earnings per share fluctuate for the years 1970-1974?



Using the information conatined in Loring's Income Statement, graph the following for the years indicated:

1. Earnings per share of common stock.
2. Dividends paid per share of common stock.

How might John Fairweather use this information in reaching his decisio on investing in Loring Mills?

General Points to Consider in the Loring Mills case:

1. What elements in history and in the financial data of the company indicate that it represents a sound investment?
2. To what extent should Loring's experience in the manufactured housing market affect any decision to buy stock?
3. What external and internal factors may have resulted in Loring's decision to enter and leave the manufactured housing market?
4. What might a potential investor infer about Loring's managerial skill from the way it handled this situation in #3?

* * *

SHOULD JOHN FAIRWEATHER INVEST IN LORING MILLS???

WHY? or WHY NOT?

Teacher's Notes:

Objectives of Loring Case

To understand
(a) historical development of a typical American corporation
(b) the internal complications and restrictions on a corporation's ability to make a profit, e.g. the narrow margin between net income and re-investment profit in 1975 figures
(c) the basic math and terminology used in the business world and their relationship to corporate function
(d) the risk factors involved in any corporate decision to diversify and enlarge, i.e. the microeconomic system being a unit of the larger economy
(e) the variables important to any decision on investing in the market.

Concepts:
(a) profit motive, i.e. 1950's diversification
(b) diversification, as a means of generating new capital, safety margin
(c) investment, long and short
(d) reinvestment, i.e. need for growth in an industry.

Vocabulary:

Technical--

jute	recession
corporate stock	enterprise
dividend	public stock
cotton baling	preferred stock
cordage	common stock
diversify	consolidate

Math--

current assets - the items on the balance sheet of a business showing book value of its resources, as cash, etc., at any given date

fixed assets - value of the property, equipment, etc.

liabilities - what has to be paid out, such as loans owed, taxes, stockholder's returns.

equity - value of investment of shareholder in company

income (before taxes) - money earned by corporation less total expenses

earnings per share - divide net income by shares of stock

cash dividends - what company determines it will actually give shareholders after company decides how much it needs to reinvest.

WHERE IS THE GREEN?

About 1930, some gentlemen were playing golf near New Bedford, Massachusetts. A golf ball was not behaving the way one golfer preferred. After some discussion, it was decided to X-ray the ball to see if it was properly made. A trip was made to a nearby hospital for the X-ray where it was found that the heart of the ball was indeed off-center causing the ball's erratic behavior. The gentlemen then decided that there was a need for a high-quality golf ball. Thus the seed was planted which later grew into the Acushnet Company.

By 1975, Acushnet was engaged in two lines of business--the manufacture, sale, and distribution of golf products (the Golf Division), and the production and sale of various rubber products (the Rubber Division).

Acushnet's Golf Division, located in Acushnet, Massachusetts, manufactures golf balls, golf clubs, putters, golf gloves, golf bags, and, for distribution abroad, golf carts. The manufacture of high-quality golf balls is a very technical and specialized process. The cores are made from natural rubber. The core is then wound with thread and the finely-wound center has a cover molded around it.

Acushnet believes that its golf ball has an excellent reputation among golfers for quality and performance. The company personally states that for over 20 years "Titleist" balls have been played by more professionals and amateurs in major tournaments than any other ball. In addition to the "Titleist," the Golf Division manufactures various other golf items in plants in California, the United Kingdom, and Spain.

The products of the Golf Division are sold only through golf course pro shops by Acushnet's own subsidiary, Acushnet Sales Company. Acushnet also distributes its products through independent sales agents in Canada and other territories not covered by its own salespeople.

This case was prepared by Donald Kelly (Cohasset, Massachusetts, Public Schools), Patricia Kelly (Hull, Massachusetts, Public Schools), and Edward MacDermott (Cohasset, Massachusetts, Public Schools) under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

Sales in the United Kingdom and Europe are made through Acushnet Limited, whiles sales in the Pacific, the Far East, and South America are made through authorized distributors.

The Rubber Division produces a wide variety of molded flexible products, parts and components made from rubber, synthetic rubber and other elastomeric materials. These products are used in the aerospace, appliance, oil, and automotive industries--windshield wiper blades, brake parts, shock absorber parts, oil seals.

Most of the raw materials used by Acushnet are available from American sources. Many of these materials are petro-chemical derivatives whose availability is contingent upon a continued supply of oil.

The Acushnet Company is located in New Bedford, Massachusetts. The New Bedford area of southeastern Massachusetts contains a population of over 100,000 persons. A large percentage of this population is highly skilled labor. Part of this labor pool has been engaged in the whaling-fishing industry and a larger portion worked in the textile industry. Both these industries have suffered a decline during more recent history. Lost jobs in this region have created severe unemployment, 9 to 11 per cent.

As of March 1975, Acushnet had approximately 2,570 employees. The company had not experienced any work stoppages resulting from labor difficulties for over 35 years. In general, Acushnet operates its facilities three shifts per day, five days per week.

In the early 1970's, management decided it wanted to expand its manufacturing capacity. The location of this expansion was narrowed to two areas: New Bedford, Massachusetts, and Fort Worth, Texas.

New Bedford: trained labor force, low mobility
better service support
better management talent available
improved opportunity to expand or contract with a changing economy
public relations - major employer in New Bedford area

improvement in employee relations
all facilities located in one area
initial construction costs less

Fort Worth: lower fuel costs
lower unemployment compensation costs
lower real estate taxes
lower hospital fringe benefit costs
lower state income taxes
better plant machinery utilization
rapid growth market
proximity of service area to market
reduce Acushnet's dependence on New Bedford and New Bedford's on Acushnet

WHERE WOULD YOU LOCATE THE NEW FACILITIES? and why?

Alternative Questions:

Should one company bear the employment burden of an area?

What problems will face Massachusetts (or any state) if this company, and possible others, decided to locate their plant expansion elsewhere?

How can Massachusetts (or any state) improve its economic climate?

IS FOXBORO IN YOUR FUTURE?

"Is the Foxboro Company a sound investment and how much should one invest in it if it is?" This is the kind of question which over 25 million individuals and countless financial institutions are faced with every day. And more and more people, firms, and other organizations are investing in pensions funds. The purpose of a pension fund is to provide for the financial needs of its members at that time when they have retired and lost much or most of their earning power. An example of a pension program is the Massachusetts State Teachers Retirement Fund which seeks to use five per cent of the yearly income of its members by investing it wisely. As each member of the MSTRA retires, the demand on the accumulated income of the fund becomes greater and greater.

Pension fund trustees usual look for capital gains (value of stock increases) or an attractive return on investment (e.g., 10 per cent return on AA bonds) when deciding to invest their funds. The MSTRA has five million dollars that can be currently considered available for investment. The usual procedure is to spread this money among a variety of investment areas, believing this will prevent catastrophic losses if one company, the fund's sole investment, should fail. A prospective candidate for such investment by the MSTRA is the Foxboro Company.

The Foxboro Company was founded in 1908 by two inventive brothers from Connecticut, E.H. and B.B.Bristol. The brothers were "tinkerers" by nature and businessmen by background. Both men realized that efficiency in industrial processes could be increased by gauges that accurately measured and regulated fluid pressure. With this basic idea in mind, the Bristol brothers established a small company in Foxboro, Massachusetts.

Over the years the firm has grown in both size and reputation.

This case was prepared by William Dooling and Brian Tuohey, both of the Millis, Massachusetts, Public Schools, and John Sloan, Westwood, Massachusetts, Public Schools, under the supervision of the 1976 NU/FEI/BHEL Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

At present, Foxboro is one of the leading world-wide suppliers of instruments and systems for process management in such basic industries as chemicals, oil and gas, food, metals, minerals, paper, and pulp. The company's headquarters is still in Foxboro, but there are plants in Canada and the United Kingdom, as well as a number of other countries, making it truly international in character. In the home plant in Foxboro, there is a touch of tradition for the company has given much to the economic well-being of the community. The close ties with the community are evidenced in many regards, and there is a mutual attachment on the part of the employees who have seen no need to unionize in all these years.

Today, according to the company's financial report, business is indeed good. Sales and earnings in 1975 reached a record high. The increased income was due to inflation in prices. A public offering of 500,000 shares was over subscribed in 1975. While dollar value sales are expected to remain high in 1976, around the $300 million mark, constant revenues and continued inflation may make it difficult to keep profits up. Greater growth in 1977 and beyond is expected unless limited by a shortage of investment capital or pressures from special interest groups that may tend to limit the growth of multi-national corporations.

The Foxboro Company, as well as other businesses, urges the United States government to adopt legislation designed to stimulate business growth, such as laws to reduce capital gains taxes, increase and accelerate depreciation allowances, and eliminate double taxation on dividends. They voice opposition to legislation which would discourage companies from maintaining operations around the world, calling such attitudes repressive and counterproductive. The Foxboro management is becoming more assertive in communicating this message to the public.

Of some concern is the location of the parent plant. Massachusetts has a generally perceived reputation as a state which is less than hospitable to business. High taxes and stringent environmental regulations, among other things, have impeded the state in recruiting new businesses. But the Foxboro management does not regard this situation as particularly threatening, for the company's domestic competitors tend to be based also in the northeastern United States, an area which shares

Massachusetts' business climate. Foxboro's international competition tends to be concentrated in their own domestic markets and are not well suited to compete with Foxboro's service on its products, since the firm is so widely based. The company is optimistic with regard to its future income. The profit margin increased 50 per cent in 1975, from four to six per cent over the previous year. An eight per cent margin of profits is seen as an obtainable goal for the coming year.

In recent years there has been concern throughout the industry that the dependence on finite resources in some of the businesses which need process control instruments could adversely affect the long range economic status of companies like Foxboro. As an example, sales to oil refineries and related customers dipped 20 per cent in 1975, though this decline was compensated for by increases elsewhere. From the Foxboro Company's point-of-view, this increasing limitation of resources indicates a need for greater efficiency in process control systems, something which Foxboro feels will cause a great demand for their products. Although the company has diversified by employing computers in its system, they are essentially process control people, and it will be in that role that the company will continue to serve. Based on years of experience, Foxboro believes they can perform their unique function better than others.

As a potential investor, what do you like about Foxboro as a source of income?

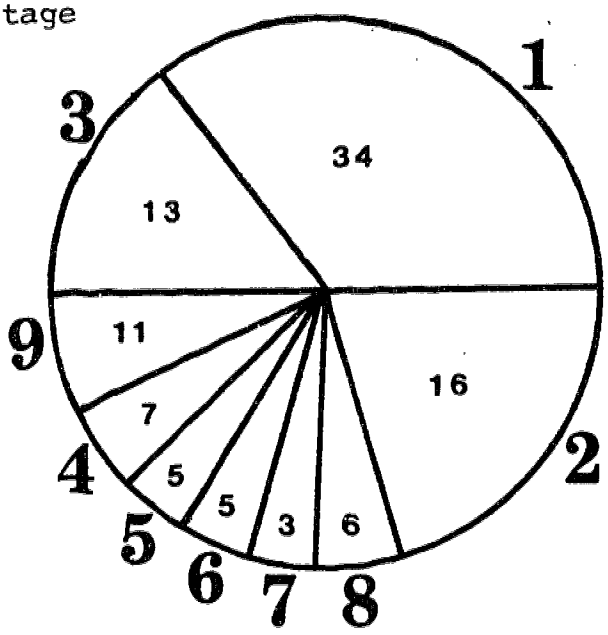
What factors worry you about the company's earning potential?

How much, if any, of the MSTRA's $5 million would you allot to the purchase of Foxboro stock?

DISTRIBUTION OF ORDERS... By percentage

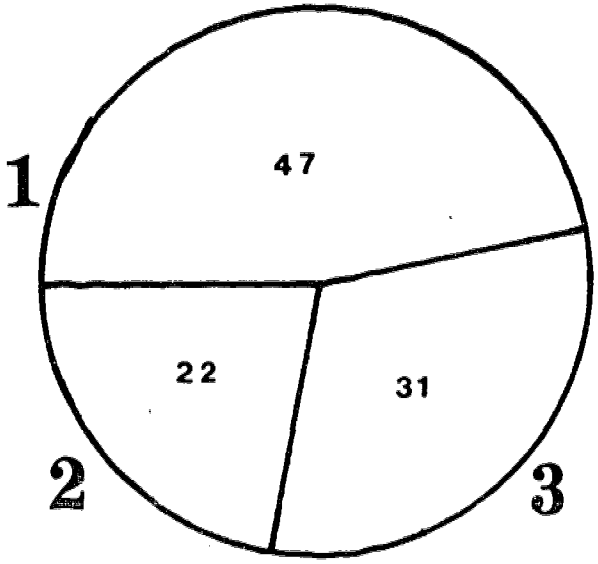
By Industry:

1. Chemical
2. Oil and Gas
3. Pulp and Paper
4. Minerals and Metals
5. Power (utilities)
6. Food
7. Marine
8. Other
9. Unclassified



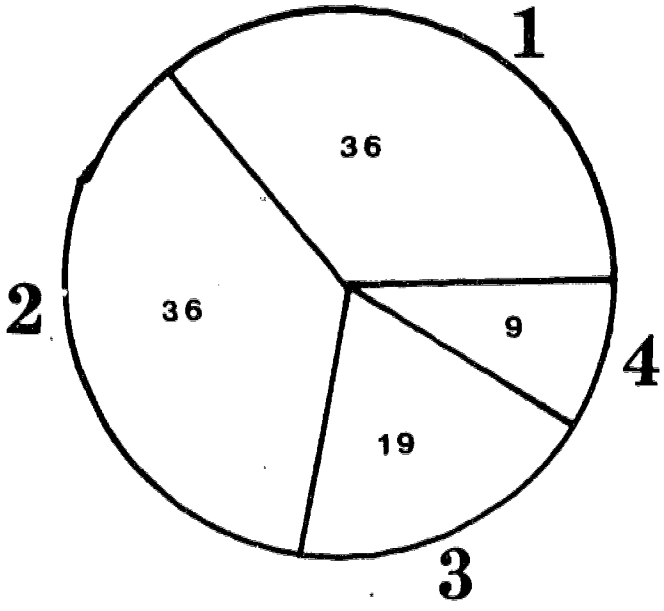
By Market Area:

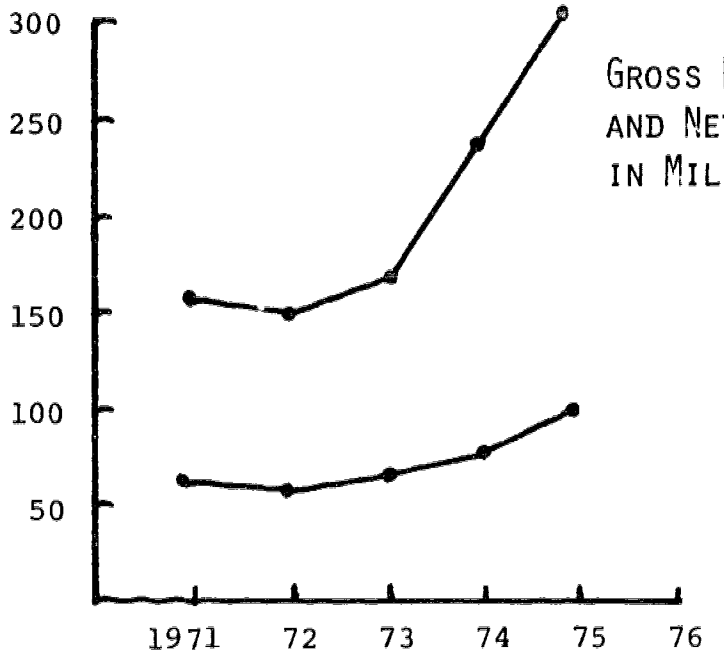
1. United States
2. Western Europe
3. Others



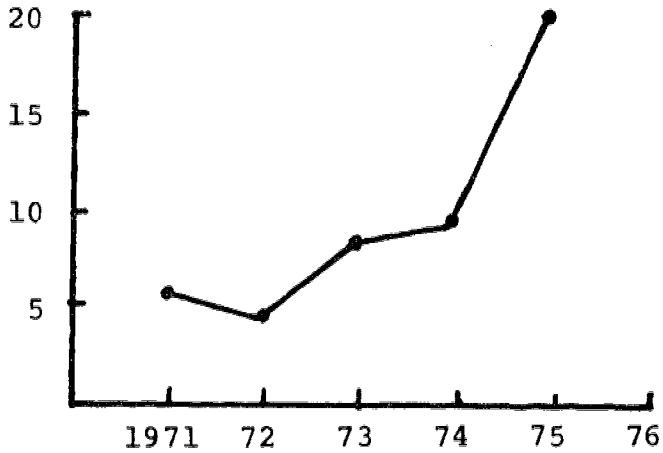
By Products:

1. Pneumatic, mechanical valves
2. Electronic instruments
3. Parts, supplies, accessories
4. Service, repairs



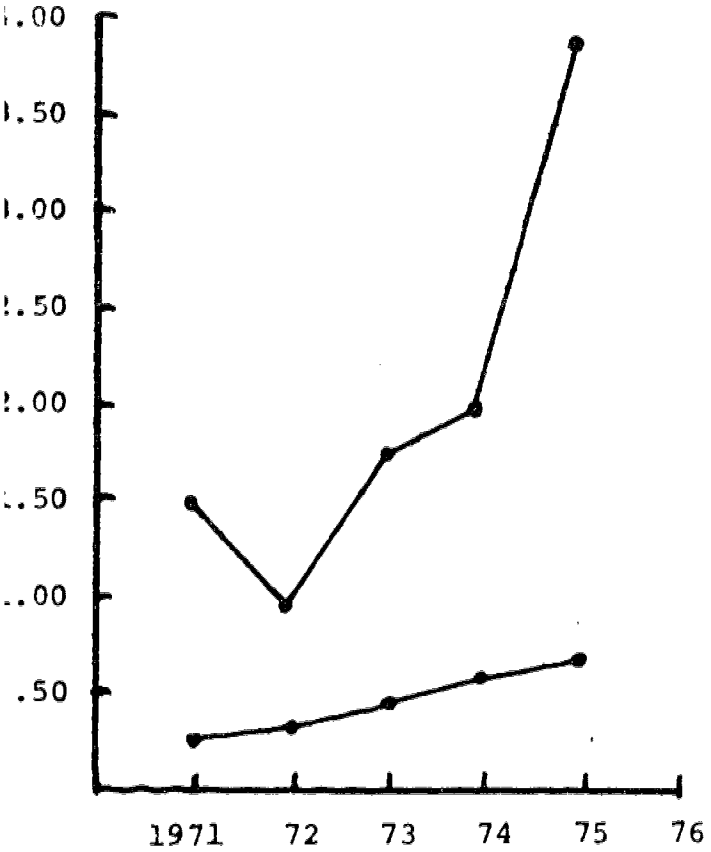


GROSS PROFIT AND NET SALES IN MILLIONS



NET INCOME IN MILLIONS

EARNINGS PER SHARE AND DIVIDENDS



GROWTH THROUGH TECHNOLOGY

In 1795 George Washington was finishing his second term as the first President of the United States. Among those industrious citizens who had helped choose the new leader of the infant nation was George Bird, a paper producer from Needham, Massachusetts. Bird had opened a small paper mill on the banks of the Charles River, thus founding a company which was to bear the Bird name for almost two centuries.

In the early stages of George Bird's mill's growth, it was characterized by direct family operations. Evolving from hand-made paper to machine processing, Bird was able to produce quality paper which would allow it to be used for the nation's currency early in the 19th century. The company also moved and located on the Neponset River in East Walpole, Massachusetts. Bird and his son Francis were able to expand the company into a partnership which provided improved paper products for the growing New England economy in the pre-Civil War period.

The family tradition was continued by Charles Sumner Bird, a Harvard College graduate, who entered the business in 1877. Charles worked hard at the business, mornings were spent in overalls working in the mill while afternoons were devoted to managerial functions. At night, he continued individual product research at home. Over the kitchen stove Charles first tried out his "Waterproof Wrapping Paper," a new invention that gained an international medal in Australia in 1880.

Charles Bird did not stop with one product. He constantly put the company's profits into new equipment and research. He wanted to change the company from a simple paper producer to a manufacturer of quality paper products. Thus the "Waterproof Wrapping Paper" was only a first step in his planned development program.

By 1885 the "Neponset Black Waterproofing Building Paper" had been created. The following year saw the introduction of Neponset Red Rope Roofing. Paroid Roofing was introduced in 1895 and remained a

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This case was prepared by Thomas Banit and Judith Sjolund, both of the Walpole, Massachusetts, Public Schools, under the supervision of the 1976 NU/FEI/BHELP Summer Social Studies Workshop faculty, as a basis for class discussion rather than to illustrate either effective or ineffective handling of a particular situation.

standard product for 60 years. Between 1904-1907, the business expanded to the point that four new roofing plants were constructed, including two in Canada. Additional roofing products and refinements continued to be developed.

The proliferation of products, however, changed the company's structure. Charles Bird could no longer operate the company himself. So, in 1913, he formed a partnership with his son, Charles, Jr., the fourth generation of the family and a 1906 graduate of Harvard College, and Philip R. Allen, as Bird and Son. Five years later, the company was incorporated.

Thus reorganized, Bird and Son was able to continue product development more readily. By the late 1920's, Bird was pioneering in the siding field with a product that simulated brick design--"Art-Bric." Then Bird employed crushed Vermont marble bonded to a large hard surface as a siding product. The marble granules, however, failed to adhere properly. Synthetic granules, creating a more durable surface, were later developed and used in place of the marble. The installation of this siding required a number of workers to carefully align and nail the product into place. To overcome this disadvantage, Bird developed a lighter, paper-based siding sold in large rolls. The unwieldiness of the rolls and the difficulty in aligning the brick design continued to plague the company and hurt sales of this product.

The impetus to find a final solution to the problem was given the company by the desire in the 1930's to cut home operating costs through increased insulation efficiency. The demand helped Bird and Son create an insulated siding. A multi-layered insulation paper, bonded with asphalt, was combined with sheets of the brick design roll-material for a good weather surface. The roll approach was abandoned and the new material was produced in eight foot lengths. However, production was extremely slow--only three or four sales units (12 boards) could be produced each hour. A few years later, Bird's competitors were able to achieve 60 units per hour by simply bonding a granule surface to short, pre-cut boards that could be applied by one worker. Bird quickly converted its operations to this method of manufacture.

Vapor barriers proved a complex problem for siding producers. Sometimes moisture from inside the home collected on the internal areas of the siding. Since the moisture could not escape, the siding buckled.

By the 1950's, Bird was coating both surfaces of its siding with asphalt to create a totally waterproof surface. In the late 1950's, another competitor experimented with plastic-coated boards with a simulated white painted wood finish to stop water damage. While attractive and efficient, the siding utilized such large amounts of highly volatile solvent that the competitor's factory burned down twice.

By 1960 Bird had achieved a solid reputation in its field as a company which produced quality products. Its history of technical developments had provided a long line of successes which management sought to countinue. The question was which way the firm should go. Should it grow vertically or expand within the areas it knew well?

The possibility of waterproofed materials kept coming to the forefront. A plastic substance--poly vinyl chloride--was being utilized by an Italian firm as a translucent roofing material. With refinements, PVC looked very promising.

But as good as translucent PVC looked, there were still some major problems. The product could not pass Bird's weather condition tests. However, it was determined that opaque-pigmented PVC was weatherable. Could the company afford the start-up costs? Was there really a market for such a product? How would the consumer react to a plastic-sided house?

As Bird management weighed these complex issues, the economic picture was clouded by the nagging fear of a recession. In 1957, and again in 1960, the nation was faced with a down turn in the business cycle. The crystal ball did not offer any convenient solution, but competition and profits were not going to wait. A decision had to be made.

Questions

1. Describe vinyl siding and its use.

2. Describe the changing involvement of Bird in the development of building materials. List chronologically as many stages of material development as you can. For each stage show the effect of competition, technology, and other pertinent factors.

STAGES OF DEVELOPMENT OF BUILDING MATERIALS	EFFECT OF COMPETITION	TECHNOLOGY	OTHER FACTORS

3. Consider the above chart. What do you think was the most important factor in Bird's decision? Provide additional evidence and/or explanation for your conclusion.